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MOBILIZATION PLANNING
FOREIGN ECONOMIC MEASURES

Preclusive Buying

NSC Declassification/Release Instructions on File

National Security Resources Board

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This is one of a series of memoranda being developed under the leadership of the National Security Resources Board in the interests of effective and coordinated mobilization planning for foreign economic measures to be undertaken in the event of a relatively early outbreak of war or a declared emergency.

In the preparation of this memorandum on Preclusive Buying, NSRB staff has relied extensively (and often verbatim) on a recent report to the NSRB by an interagency study group* and on subsequent interagency consultation.

This paper now constitutes a general guide to all Executive agencies in their participation in mobilization planning. It is planned to revise the memorandum from time to time as new developments, changes in basic assumptions, further information, and the extension of planning to longer-range coverage make this desirable.

* Interagency Mobilization Planning Study on Preclusive Buying, March 31, 1949; SECRET. The report will be helpful to those interested in major points of variance with this memorandum, a more detailed discussion of preclusive buying, and World War II operations and experience.

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PRECLUSIVE BUYING

I. Definition and Purposes

"Preclusive Buying", more adequately termed "Preclusive Operations", is pre-emptive action taken to deny the enemy goods which are essential to his economy and which otherwise would be available to him in neutral markets.*

Preclusive buying thus properly refers only to procurement which is not undertaken primarily to supply requirements of the buyer, but has the specific purpose of pre-empting in neutral areas resources which are essential to the enemy's war economy and which would otherwise be accessible to him. These resources may be raw materials, manufactured products, facilities, sources of supply, privileges such as rights and options, and possibly even professional services. Operations are directed principally toward prior acquisition of resources of their purchase by outbidding the enemy, either through direct price incentives or through a combination of price and promised goods which are desirable to the neutral country but either not valuable to the enemy or not accessible to him by agreement of the neutral country. Outright acquisition is often less effective than tying up of productive and supporting facilities such as transportation and communications thus preventing the creation and movement of goods needed by the enemy.

Preclusive buying is a "dog-in-the-manger" tactic in the field of procurement. It may be intended to secure permanent denial to the enemy, or to constitute a temporarily disruptive maneuver.

Preclusive operations, as here discussed, may also shade into procurement operations designed to build up strategic stockpiles, to subsidize a neutral government, to support the economy of a neutral country, and to obtain concessions from such a country or to prevent its dependence on and adherence to the enemy. While operational methods and problems are often similar, distinction between the respective objectives must be observed.

II. Operational Limitations and Requirements

The potential usefulness of preclusive operations would be limited to critical deficiencies in the economy of an enemy which cannot

* Conceivably this type of operation might be called for in markets of a "lukewarm" ally where controls were inadequate to prevent leakage to the enemy.

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be overcome at all or without a significant strain upon his own resources except by resort to outside resources. Accurate appraisal of these deficiencies is a prime requisite and basic to any successful pre-emptive undertaking. The intelligence required as a basis for preclusive operations is essentially the same as that required for several other measures of economic warfare.

Preclusive buying is generally in the nature of a "last resort" technique; that is, it is used when it is determined that other economic weapons, such as War Trade Agreements, Blockade, and Blacklisting will not be effective.

Among neutral resources preclusive buying would be considered only for those in which:

1. The potential contribution to an enemy economy is significant;
2. Actual accessibility to an enemy is clearly in prospect; and
3. Reasonable opportunities exist for pre-emptive operations which could so reduce the supplies available to the enemy as to weaken him appreciably.

A reasonable probability for success in the conduct of preclusive operations would require:

1. That the volume of actual and potential neutral supplies or resources accessible to an enemy is not too large for effective denial;
2. That the supplies or resources are, or can be brought, under effective control, and that those in control are able and willing to receive and consider offers by a preclusive buyer;
3. That it is practical and feasible for the prospective preclusive buyer to make acceptable offers; and
4. That effective pre-emption will not be prevented by action of the neutral government.

The requisite limitations on the volume of neutral resources could be natural or artificial, but experience in the last war demonstrated that pre-emption can only be successful where no great expansion in production is possible and where the preclusive buyer can establish control over a significant proportion of a limited total. This requires in cases of private control that the controlling interests are amenable to overtures by the preclusive buyer and, in cases of publicly controlled resources, that access of the preclusive buyer is not prohibited, or excessively limited, and that access of an enemy is not assured by the neutral government. A fundamental requirement, therefore, is a diplomatic relationship

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under which the policies of the neutral government, if not themselves denying the enemy, at least do not prevent effective pre-emption either by restricting preclusive operations or by assuring preferential enemy access.

Effective operations would require field personnel in the neutral areas especially familiar with the people, resources, marketing practices and customs of the areas and possessed of specialized competence in the resources to be pre-empted. This field staff should be composed of technicians and should act in accordance with coordinated plans for all elements of allied economic warfare.

The pre-emptive organization should be capable of acting with speed, flexibility and ingenuity. Constant vigilance, quick decision, and prompt action are necessary to achieve and maintain effective pre-emption. (In the last war, hesitation lost the Germans their control over strontium, and similar conservatism on the part of the allies permitted the Germans to return to the fluorspar market.)

A subsequent memorandum of this series covers the general U. S. organization in wartime for foreign economic operations including preclusive buying. Although at this juncture of mobilization planning it would be unrealistic to prescribe in any detail a wartime organizational pattern for the individual elements of economic warfare, certain reasonable assumptions can be made regarding preclusive buying if and when employed.

In the first place, such an operation is procurement, regardless of its peculiarities. In the interest of economical and effective operations, the regular wartime procurement machinery and procedures should be used to the fullest extent possible. The basic purpose of preclusive operations, however, is not to obtain supplies but to deny them to the enemy. Thus, they must be closely integrated with other phases of economic warfare and often must be exempted from ordinary procurement practices as to prices, methods of payment, clearance with supply authorities, etc. which would restrict their effectiveness in this peculiar procurement field. Moreover, it may be anticipated that in some cases pre-emption may involve certain irregular or clandestine operations which require more than normal flexibility and perhaps secrecy.

III. Evaluation of Potential Use in the Event of War with Soviet Russia and Satellites

Present indications are that preclusive buying, if employed as a direct economic warfare weapon in any foreseeable conflict, will be a small program with few targets and of minor importance. The potential value of this technique is likely to be mainly as an auxiliary to other types of economic warfare action in a very few areas bordering the Soviet

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sphere of control where resources valuable to the enemy are available and could not be withheld from him by other means. In some cases, however, preclusive operations may also serve to support intelligence or political objectives in the border areas by providing subsidies to friendly or neutral elements in the course of diverting their trade away from the enemy.

Regardless of the immediate prospects at the outbreak of hostilities of the usefulness of preclusive buying either as a direct weapon or in terms of an auxiliary action, the possibility should not be overlooked that the opening situation may change during the course of hostilities. At some point in the long-run duration of those hostilities, opportunities may develop for the employment of pre-emptive operations as deficiencies occur in an enemy economy weakened by the impact of a savagely prosecuted and extended war.

It seems probable that in the event of war, Soviet Russia would control an ample amount and variety of essential resources due to its own great land masses, physical contact with other supply areas, and extensive capabilities for adaptation, conservation and substitution. World War II experience showed that large economies are capable of adaptation with a degree of speed and to an extent which could not have been anticipated even by the countries which had accomplished the most. The number and urgency of specific deficiencies in enemy resources could, therefore, not be expected to be great. U. S. analysts face a formidable problem in attempting to forecast Soviet capacity for wartime economic conversion and to indicate the points at which denial measures could be expected to have substantial effects. However, the best information currently available tends to support the tentative conclusions set forth above.

It appears likely also that the number of neutral areas moderately accessible both to U. S. and enemy trading in the event of major conflict would be very limited and that their economic capacity would be small in absolute terms and in comparison with that of the enemy orbit as a whole. Such areas could offer only a limited number and volume of surplus resources potentially applicable to enemy deficiencies. It is assumed that the military power of such neutrals, and their ability to enforce "neutral rights", would be slight and that none of the principal belligerents would conform to the older concept of "neutral rights" where recognition of such rights would significantly aid the enemy in a total war for survival.

Allocation of strategic neutral resources would be expected to conform for the most part to policies of the neutral governments, which policies would be determined primarily by their interest in escaping and surviving the war. In many countries, a considerable degree of governmental control over resources will already have existed before any future war. The possible targets of preclusive buying, if not already governmentally controlled, would be subject in wartime to the establishment of such control for political purposes.

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The prospects, therefore, are that future efforts by belligerents to mobilize resources of a neutral, or to deny them to an enemy, will be made largely through government-to-government negotiations. The agreements resulting from these negotiations would reflect a predominant influence of political and military considerations. Thus, preclusive buying would be primarily cast in a role of implementing intergovernmental agreements rather than as a direct operation in the open markets.

In this connection, however, it must be recognized that the governments in a number of countries bordering the Soviet Orbit, especially in Asia, are not in a position to allocate their resources or police their frontiers effectively. Many of the areas nominally subject to these governments are autonomous in practice and have traditionally been ready to sell their products and services to the highest bidder. Thus, it is unlikely that these governments could be relied on, in the event of war, fully to implement their agreements with either side and that goods under their loose custody could be drawn off under an aggressive campaign of price, bribery and other inducements. In attempting such a campaign, precaution should be taken to avoid stimulating production and thereby defeating the purpose of pre-emption.

The expectation that preclusive buying would have no more than small importance or a secondary role in case of war is, therefore, based on the probability that there would be only a very limited number of potential targets (specific and critical enemy deficiencies toward which neutral resources would actually be applicable to a significant extent) and that a large proportion of the potential targets would be disqualified as active targets because their accessibility did not provide the elements requisite to effective denial. At the same time any such conclusion must be qualified to the extent that unexpected targets may appear in peripheral states and further that limited targets may emerge in areas threatened by enemy occupation.

The interagency study group considered the possible role of preclusive buying in a continued "cold war" and came to the conclusion that the "technique is not suitable for use in peacetime or even during 'cold war.'"

Given the probable nature of Soviet shortages, it is probable that the use of such a device under international conditions still allowing the freedom of the seas and a semblance, at least, of freedom of world markets would involve an outlay of funds out of all proportion to the benefits which might be gained. Especially is this true in the world situation of today when surpluses are appearing in many of the commodities which have heretofore been in tight supply. Also, such an attempt might well defeat its own purpose by forcing the potential enemy "into business" in the very commodities contemplated for pre-emption. Given time, know-how, financial means and facilities, crops can be grown; minerals, extracted; and substitutions, devised.

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But again, any negative conclusion as to peacetime application must be qualified. Should the international peace situation worsen to a point where it might be possible to discern some form of timetable of aggression, there probably would appear certain "spot" targets for preclusive buying which would cause at least enough temporary harassment of enemy planning to justify the effort. Other exceptional situations may occur where important resources, deficient in the Soviet Orbit, are found in areas not directly under Soviet control but still accessible to her market (e.g. tin in Southwest China.)

Conclusions

In attempting to appraise the usefulness and the extent of pre-emptive operations against Soviet Russia and satellites in case of war, the following conclusions would appear justified:

1. Preclusive buying would be a small program, with few targets and of minor importance, if employed as a direct weapon.
2. Competition for neutral resources would be conducted wherever possible through intergovernmental negotiations and mainly on the basis of over-all political and military considerations. In such cases, the specific function of any preclusive buying would more often be that of orderly purchases to implement agreements with neutral governments, rather than competitive bidding in an open market directly contesting enemy procurement.
3. In Asia's border areas where governmental authorities are ineffective and occasionally venal, preclusive operations may play a more important role, but the number of commodities and the volume of purchases involved would probably be small considering the resources of these areas, the character of Soviet deficiencies, and the transportation difficulties of getting the material to the Soviet industrial locations.
4. The suitability of the preclusive buying technique in peacetime, or during "cold war", can be considered only in relation to specific Soviet deficiencies. The number of cases in which it might be useful would probably be extremely limited unless the conditions of the "cold war" are intensified to a degree which signals the early approach of enemy aggression.

IV. Recommendations

1. Readiness Measures.

- a. Intensive and continuing studies of specific deficiencies in the economies of the Soviet Orbit, and corresponding studies of potential neutral resources likely to be accessible both to the USSR and the U.S. (This is basic also to a number of other elements of economic warfare.) A

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conclusive study of this field might well serve a dual purpose: positively, to delineate targets where pre-emptive operations would have a reasonable chance of success; negatively, to eliminate those targets where the operations would probably be only wasteful of U.S. funds.

b. Inclusion in drafts of wartime legislation, for enactment upon an outbreak of hostilities, of authority for preclusive buying operations, to be conducted in accordance with directives issued by the President, with provisions for a continuing source of adequate funds and foreign exchange to finance such operations. (General authorization is included in current draft of an Emergency Powers Act, Article IV.)

c. Continuous review under NSRB leadership of plans for preclusive operations and revision of such plans in accordance with developments in the organization of the Government and the prospective scope of this program. (The interagency study group did not suggest point of leadership in the periodic review recommended.)

d. Consultation with the U. K. and Canada and possibly other potential allies on over-all strategies of economic warfare (including preclusive operations) and, more specifically, on the part they can play in any pre-emptive program. (Although the U. S. would undoubtedly carry the chief financial burden of pre-emptive operations, field personnel and services of several major allies may be indispensable in certain areas.)

2. Wartime Measures.

a. Submission of pertinent draft wartime legislation for enactment, including authorization of the function of preclusive buying and provision of funds on a continuing basis.

b. Adequate gearing of pre-emption plans and programs to foreign economic intelligence, over-all foreign economic strategy, and regular war-time procurement. (Developed in a subsequent memorandum of this series on organizational plans.)

NB. Administrative responsibility for preclusive buying, both in the initial stages of war or declared emergency and in later stages, is discussed in a subsequent memorandum on administrative arrangements for foreign economic measures.

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